

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 267 - HB 362

March 4, 2011

SUMMARY OF BILL: Creates a temporary state and local sales tax exemption for the retail sale of building supplies, for use at the claimant's primary residence, for the purpose of constructing or improving a storm or tornado shelter. Eligible purchases must occur between July 1, 2011, and December 31, 2011. Requires the Department of Revenue (DOR) to provide refunds of sales taxes paid by claimants on eligible purchases. Sets the maximum allowable refund at \$2,500 per residence. Establishes February 1, 2012, as the filing deadline for claimants to apply for refunds. Authorizes DOR to assess civil penalties not to exceed \$25,000 against any person who knowingly files a false or fraudulent application. Establishes December 31, 2012, as the date of repeal.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$129,900/One-Time
Forgone State Revenue - \$259,600/One-Time

Decrease Local Revenue - \$46,400/One-Time
Forgone Local Revenue - \$92,900/One-Time

Assumptions:

- Building supplies means trash bags, boxes, construction tools, sheetrock, drywall, insulation, paint and paint materials, flooring, and other necessary hardware and other building supplies as determined by DOR.
- DOR will promulgate rules that provide confirmation that the building supplies were used for the exclusive purpose of building or improving a tornado or storm shelter.
- A state sales tax rate of 7.0 percent and an average local option sales tax rate of 2.5 percent.
- No state single article sales tax because all purchased building supplies will have a cost per item under \$1,600 (the threshold at which the single article tax applies).
- This fiscal estimate does not take into account prefabricated tornado or storm shelters.
- According to DOR, the average cost of building a tornado or storm shelter is estimated to be \$10,500, including supplies and labor. Building supplies are 70 percent of total pre-tax cost; labor is 30 percent. The total pre-tax cost of building supplies used to build an average tornado or storm shelter will be \$7,350 (\$10,500 x 70.0%).

- Combined state and local sales tax on building supplies to build an average tornado or storm shelter will total \$698, consisting of \$514 ($\$7,350 \times 7.0\%$) in state sales tax and \$184 ($\$7,350 \times 2.5\%$) in local option sales tax.
- As a result of the proposed exemption, a purchaser of qualified building supplies will realize an effective 8.7 percent discount [$\$698 / (\$7,350 + \$698)$] off the total cost of building supplies.
- Based on data obtained from the Federal Emergency Management Agency (FEMA) concerning grant programs that have been implemented in other states for the construction of storm shelters, such as the Alabama Safe Room Initiative (559 individual shelters were constructed), the Mississippi Safe Room – Storm Shelter Initiative (1,105 individual shelters were constructed), and the Oklahoma Residential Shelter Initiative (6,016 individual shelters were constructed), it is estimated that the proposed sales tax exemption will be a sufficient incentive for an average of 5 homeowners to build tornado or storm shelters in 89 counties, and an average of 10 homeowners to build tornado or storm shelters in the six largest populated counties, for a total of 505 constructed storm shelters across the state.
- Because these sales would not occur in the absence of this bill, the forgone state sales tax revenue will be \$259,570 ($505 \times \514); the forgone local option sales tax revenue will be \$92,920 ($505 \times \184).
- Building supplies that will be purchased for building tornado and storm shelters in the absence of this bill are estimated to be 50 percent of the sales that will occur as a direct result of enactment of the bill, resulting in a decrease in state revenue of \$1,855,875 ($\$7,350 \times 505 \times 50.0\%$). The resulting decrease in local option sales tax revenue will be \$46,397 ($\$1,855,875 \times 2.5\%$).
- There will not be a sufficient number of fraud cases for the state to experience any significant increase in revenue from civil penalties.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc